

San Jose Mercury

Editorial: Seeds of Silicon Valley rebound are being planted

Mercury News Editorial

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The economic forecast for the new year looks grim. But as Mercury News business reporters made clear last week in a series on technology trends for 2009, this is still a time of great innovation in Silicon Valley. That's what will bring us out of this recession. The seeds for a rebound are already being planted, whether they be video chat, cloud computing, biotech, mini-laptops or electric cars.

The Wall Street debacle is exacerbating the current recession, which began months ago. But even without a global crash, the valley was overdue for a downturn. Boom and bust cycles have been recurring here for three decades, with significant down cycles in 1981, 1985, 1990, 1996 and 2001.

Chip sales are still a barometer of the health of the high-tech industry, and forecasts are dropping off the charts. The research firm Gartner earlier this month projected that chip sales would fall 16.3 percent in 2009. That's less than the 30 percent drop in 2001, but otherwise it would be one of the biggest sales plunges in since 1985.

Gartner also forecasts that sales should increase in 2010 by 14 percent. And that shouldn't come as a major surprise, either. For the past 30 years, chip sales have routinely increased or decreased year to year by more than 10 percent, depending on whether the industry is in a boom or bust cycle.

Every time the valley economy tanks, industry leaders try to figure out how to prevent it from happening again. Supply-chain management was all the rage after the 2001 bust. But the boom-bust cycles are largely a result of aggressiveness of high-tech companies. And it's not a bad thing.

Most high-tech companies make plans to increase market share — a definition of success — and place their orders for chips accordingly. Manufacturers ramp up. But with multiple firms going after the same markets, not all of them can sustain the anticipated growth, even in good times. When product sales fall, companies cancel orders and chip manufacturers are left with a glut on their hands. In a major recession, the routine ups and downs are exaggerated. But eventually a new wave of innovation absorbs the backlog.

The downturns show which valley companies are built to last. Each bust cycle weeds out those that can't weather the storm, which in this case is likely to be a brutal period of many months, if not a year. Sometimes the list of those vanishing, usually through acquisitions, reads like a who's who of Silicon Valley. Remember Tandem? Amdahl? Netscape? The survivors are those nimble enough to downsize and re-emerge for the next cycle.

Ready or not, the race to craft the next great Silicon Valley companies has begun. The sooner winners emerge with the next wave of groundbreaking technologies, the less painful this recession will be.